

EXPLANATORY STATEMENT

ADDITIONAL NATIONAL PRINCIPLE UNDER THE LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995

(LGFA/1995-1)

BACKGROUND

Under the *Local Government (Financial Assistance) Act 1995* (the Act) financial assistance is provided to the States and Territories for local government purposes in the form of general purpose grants and grants for local roads. The States and the Northern Territory distribute these funds to their local governing bodies on the recommendations made by Local Governments Grants Commissions. The Grants Commissions' recommendations must be made in accordance with the national principles made under the Act. The national principles were made on 17 October 1995 in accordance with subsection 6(1) of the Act and are set out in the Attachment.

The House of Representatives Standing Committee on Economics, Finance and Public Administration in its report, *Rates and Taxes: A Fair Share for Responsible Local Government*, proposed the formulation of an additional national principle to facilitate amalgamations of councils.

The Government, in its response tabled on 22 June 2005, agreed that:

The Minister for Local Government, Territories and Roads will propose a new national principle under the *Local Government (Financial Assistance) Act 1995* specifying that financial assistance grants for amalgamated councils be maintained for four years after an amalgamation so that the grants do not act as a disincentive to voluntary amalgamation.

NATIONAL PRINCIPLE

Subsection 6(4) of the Act provides that:

The Minister may, after consulting with relevant State Ministers and with a body or bodies representative of local government, in writing, revoke or vary any of the principle formulated under subsection (1).

The Minister for Local Government, Territories and Roads consulted with the relevant State and Territory Ministers and the President of the Australian Local Government Association.

Subsection 6(2)(a) of the Act provides that:

In formulating national principles, the Minister is to have regard to the need to ensure that the allocation of funds for local government purposes under section 9 is made, as far as practicable, on a full horizontal equalisation basis.

The additional national principle will, in the long run, achieve a greater level of horizontal equalisation by making a greater share of the general purpose grant a jurisdiction receives available to needier local governing bodies.

The additional national principle removes any disincentive for voluntary council amalgamations that a likely reduction in general purpose financial assistance grants could present. It also applies in the case of involuntary council amalgamation. In determining general purpose grant entitlements, Grants Commissions assess each local governing body's revenue raising capacity and expenditure need. Where the amalgamation of two or more local governing bodies results in reduced expenditure per capita through greater economies, the new local governing body's grant need will be less than the sum of the grant entitlement of the original local governing bodies. A reduction in the general purpose grant to amalgamated local governing bodies provides additional grant funds for relatively more needy local governing bodies in the jurisdiction.

The additional national principle assists new local governing bodies formed through amalgamation to fund the cost of the amalgamation by providing a higher level of grant over the following four years.

To the extent that the additional national principle removes a barrier to voluntary amalgamations with economic benefits through the re-organising of local governing bodies into more efficient units, the effect of this principle will contribute to achieving the objects of the Act set out in subsection 3(2).

NATIONAL PRINCIPLES UNDER THE LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995

A. General Purpose Grants

The national principles relating to allocation of general purpose grants payable under section 9 of the Act among local governing bodies are as follows:

1. Horizontal Equalisation

General purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This is a basis that ensures each local governing body in the State or Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State or Territory. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.

2. Effort Neutrality

An effort or policy neutral approach will be used in assessing the expenditure requirements and revenue-raising capacity of each local governing body. This means as far as practicable, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determination.

3. Minimum Grant

The minimum general purpose grant allocation for a local governing body in a year will be not less than the amount to which the local governing body would be entitled if 30 per cent of the total amount of general purpose grants to which the State or Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State or Territory on a per capita basis.

4. Other Grant Support

Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.

5. Aboriginal Peoples and Torres Strait Islanders

Financial assistance shall be allocated to councils in a way, which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

6. Council Amalgamation

Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

B. Identified Local road Grants

The national principle relating to allocation of the amounts payable under section 12 of the Act (the identified road component of the financial assistance grants) among local governing bodies is as follows:

1. Identified Road Component

The identified road component of the financial assistance grants should be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets. In assessing road needs, relevant considerations include length, type and usage of roads in each local governing area.